

EL DORADO COUNTY ASSESSMENT PRACTICES SURVEY

JANUARY 2001

CALIFORNIA STATE BOARD OF EQUALIZATION

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January 31, 2001

TO COUNTY ASSESSORS:

No. 2001/015

EL DORADO COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the El Dorado County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The El Dorado County Assessor was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained in the report. This report and the county assessor's response constitute the final survey report. This report, pursuant to Government Code section 15646, is distributed to the Governor, the Attorney General, the State Legislature, the El Dorado County Board of Supervisors, the El Dorado County Grand Jury, and the El Dorado County Assessment Appeals Board.

The BOE's County Property Tax Division performed the fieldwork for this survey of the El Dorado County Assessor's Office between March 1999 and August 1999. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The survey process inherently requires the interruption of normal office work routines. We thank the Honorable John A. Winner, El Dorado County Assessor, and his staff for their cooperation and patience during this assessment practices survey. These survey reports give the government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share your questions, comments, and/or suggestions for improvement with us.

Sincerely,

Richard C. Johnson
Deputy Director
Property Taxes Department

RCJ:jm
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the enormous impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that half or more of all property tax revenues are used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

The assessment practices survey program is one of the State's major efforts to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews (surveys) every county assessor's office and publishes a report of its findings. This report reflects the BOE's findings in its periodic survey of the El Dorado County Assessor's Office.

Readers of previous assessment practices survey reports will note several distinct changes in the format of the report. Among other things, the previous reports commonly contained multi-part recommendations and formal suggestions. Each recommended change is now listed as a separate recommendation. Items that would have been formal suggestions under the previous format are now either recommendations or are stated informally within the text of the report. Both of these changes increased the number of recommendations in the survey reports. Accordingly, an increase in the number of recommendations from one report to the next should not lead the reader to conclude that the effectiveness of the assessor's operation has decreased.

The assessor is required by law to file with the board of supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, and to the El Dorado County Grand Jury and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable John A. Winner, El Dorado County Assessor, elected to file a partial response prior to the publication of our survey; that response is included in this report following the Appendices.

Management audit reports typically emphasize problem areas, with little said about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas. However, assessment practices survey reports also contain information required by law (see *Scope of Assessment Practices Surveys*) and information that may be useful to other assessors, such as outstanding or unique operations performed by the assessor and his or her staff. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the performance of other duties enjoined upon the assessor, and the volume of assessing work as measured by property type. As directed by Government Code section 15644, this survey report includes recommendations for improvement to the practices and procedures found by the BOE's survey team.

In addition, Revenue and Taxation Code section 75.60¹ requires the BOE to certify that the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the El Dorado County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in El Dorado County with information relevant to the property tax assessment program.

This survey also included an assessment sample of the 1998-99 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

An assessment practices survey is not an audit of the assessor's entire operation. We do not examine internal fiscal controls, nor do we review the internal management of an assessor's office outside those areas related to assessment.

¹ All statutory references are to the Revenue & Taxation Code, unless otherwise indicated.

EXECUTIVE SUMMARY

This report presents recommendations for improvement and also attempts to identify those elements of the assessor's program that are particularly effective. It also describes areas of improvement since our last assessment practices survey and acknowledges the implementation of previous recommendations.

- The assessor's staff appraisers are current in their mandatory training requirements.
- An administrative change involving roll changes is recommended. The assessor should comply with the appropriate statutory requirements when notifying assessee of escape assessments.
- To comply with statutory provisions, we recommend the assessor use the BOE-prescribed change in ownership statement.
- For new construction, we discuss the importance of obtaining building permits from all issuing agencies and ensuring that the appraisal files contain sufficient documentation to support market value conclusions.
- Two recommendations address supplemental assessments. We recommend the assessor issue supplemental assessments for qualifying fixtures and that he discontinue issuing two supplemental assessments for June events.
- Assessment of land restricted under California Land Conservation Act (CLCA) contracts is the subject of three recommendations. We recommend the assessor compile a database to aid in the appraisal of CLCA property, that he include certain documentation in the appraisal records of CLCA property, and that he deduct an estimate of expenses when capitalizing the income of CLCA property.
- We found that the assessor has an effective program for the assessment of taxable government-owned property.
- The assessor implemented several of our previous recommendations for revising the possessory interests assessment program. However, we repeat our prior recommendation regarding documentation of possessory interests.
- In the area of leasehold improvements, we recommend the assessor review classification procedures and improve the coordination between the business and real property sections.
- We repeat several recommendations from our previous survey stressing timely completion of mandatory audits, acquisition of waivers of the statute of limitations, and proper treatment of value differences found in audits.

- With regard to business property valuation, we stress the need to use the price index and percent good factors applicable to the category of equipment being appraised, and to cease using arbitrary minimum percent good factors.
- Although the assessor uses most BOE-recommended computer valuation factors, he also uses a 10 percent minimum valuation factor. We recommend the assessor use all of the BOE-recommended computer valuation factors.
- Additional recommendations address the filing requirements and annual valuation of boats and aircraft.
- The county assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 1998-99 assessment roll indicated an average assessment ratio of 98.81 percent, and a sum of absolute differences of 3.72 percent. Accordingly, the BOE certifies that El Dorado County is eligible to continue receiving reimbursement of costs associated with administering supplemental assessments.

Here is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text.

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OVERVIEW OF THE EL DORADO COUNTY ASSESSOR'S OFFICE

Staffing

The El Dorado County Assessor's Office has 40 employees, including one assistant assessor and one departmental systems coordinator. The real property staff consists of three supervising appraisers, 13 appraisers, and two appraiser aides. The business property staff consists of three auditor-appraisers. The assessment support services staff includes an executive secretary, an assessment office manager, two supervising assessment technicians, and ten assessment technicians. One supervising drafter and two cadastral drafters are responsible for map drafting.

Budget and Workload

For the fiscal year 1997-98, the El Dorado County Assessor prepared an assessment roll containing 114,423 assessments on an approved budget of \$2,178,539.

The assessor's real property workload for the 1997-98 assessment year included 8,141 change-in-ownership appraisals, 2,938 changes in base year value resulting from new construction, and 19,539 reviews of properties for which the market value declined below the factored base year value. The county assessed 1,264 properties restricted by California Land Conservation Act contracts or located in a timberland production zone and 106 taxable government-owned properties. The real property section also performed many other tasks, such as evaluating 83 properties affected by misfortune or calamity.

For the 1997-98 assessment year, the assessor's business property section processed approximately 9,700 business property assessments, including 324 general aircraft and 4,550 vessel assessments. In addition, the business property section completed 37 mandatory audits.

The following table of properties by roll type is extracted from the BOE publication *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices, 1997-98*, dated June 1999.

Roll Units

<u>Property Type</u>	<u>Number of Assessments</u>	
	<u>in County</u>	<u>Enrolled Values</u>
Residential	75,635	
Commercial	2,225	
Industrial	848	
Rural	3,559	
Miscellaneous	<u>21,228</u>	
Total Secured Roll	103,495	\$10,691,401,000
Total Unsecured Roll (including manufactured homes)	<u>10,928</u>	<u>259,969,000</u>
Total Roll	<u>114,423</u>	<u>\$10,951,370,000</u>

ADMINISTRATION

This portion of the survey report focuses on the administrative policies and procedures of the assessor's office that affect both the real property and personal property assessment programs. We examined the assessor's participation in the State-County Property Tax Administration Program, training and qualifications of appraisal staff, how the assessor handles corrections and changes to the assessment roll, and how the assessor's office prepares and presents assessment appeals. During our review, we also researched the assessor's disaster relief and exemption programs.

State-County Property Tax Administration Loan Program

Section 95.31 provides that, upon recommendation of the county assessor, and by resolution of the county board of supervisors, any eligible county may elect to participate in the State-County Property Tax Administration Loan Program. A county may apply for a loan to enhance its property tax administration system, reduce appraisal backlog resulting from new construction and changes in ownership, and maximize value enrollment capabilities. Most California counties participate in the program. The county under contract does not necessarily repay the loan in cash. Under the terms of the contract the county may repay the loan by meeting performance measures that are enumerated in the contract. In theory, the completion of these measures would generate property tax revenues to schools, greater than or equal to the loan amount.

El Dorado County elected to participate in the State-County Property Tax Administration Loan Program for fiscal years 1997-98 through 2000-2001. On February 1, 1998, the County of El Dorado and the California State Department of Finance (DOF) entered into an agreement for the State-County Property Tax Administration Loan Program.

Under the terms of the agreement, the DOF would loan \$302,795 for 1997-98. If the County of El Dorado meets the terms and conditions of the agreement each year, the DOF will make additional loans in the amount of \$302,795, for each of the fiscal years 1998-99, 1999-2000, and 2000-2001. In exchange, El Dorado County agreed to use funds received from the DOF to enhance its property tax administration program, and not to use the loan amount to supplant the assessor's current funding level. El Dorado County also agreed to maintain staffing and funding levels equal to or exceeding those of the 1995-1996 fiscal year.

According to contract terms, El Dorado County must submit a report to the DOF detailing the projected impact of the increased funding regarding the number of reassessments and audits completed, assessment appeals defended, the reduced backlog as of June 30, and the average increment of assessed value change associated with the objectives in the agreement. Specific reporting requirements are enumerated in the contract. The county's auditor-controller must verify the report submitted to the DOF.

At the time of our survey fieldwork, the county assessor's report was not yet due to the DOF.

Training

The Revenue and Taxation Code contains specific annual training requirements that must be met for a person to perform the duties of an appraiser for property tax purposes in California. Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser certificate issued by the BOE. Section 671 requires that all appraisers complete 24 hours of BOE-approved training each year in order to retain a valid appraiser certificate. Holders of an advanced appraiser certificate must complete 12 hours of training each year.

We found that the assessor's appraisal staff is current in their training and continuing education requirements.

Assessment Appeals

Section 16, article XIII of the California Constitution provides that the assessment appeals function shall be performed by either the county board of supervisors sitting as the board of equalization or by one or more assessment appeals boards created by the board of supervisors. Sections 1601 through 1645.5 describe the assessment appeal process. Government Code section 15606(c) directs the BOE to prescribe rules and regulations to govern county boards of equalization; the BOE has adopted Property Tax Rules 301 through 326 to regulate assessment appeals.

Until recently, the El Dorado County Board of Supervisors served as the local board of equalization. On March 11, 1997, the board of supervisors adopted an ordinance authorizing an assessment appeals board. The assessment appeals board, appointed by the board of supervisors, consists of five members, but acts as a three-member panel. The county has not authorized the use of hearing officers.

The number of assessment appeals increased dramatically in many California counties in the early to mid-1990's, due to the economic recession and the corresponding decline in real estate values. Appeals in El Dorado County peaked at 248 for fiscal year 1996-97. However, this figure was inflated by numerous appeals from developers whose subdivision land had declined in value, due to changes in the county's general plan that reduced the permitted density of development.

Fiscal Year	Total Appeals	Unconditional Withdrawals	Conditional Withdrawals	Appeals to Hearings
1998-99	185	12	156	9
1997-98	177	44	101	32
1996-97	248	109	85	54
1995-96	226	---	--	--

For 1998-99, almost 85 percent of all appeals in El Dorado County were handled as conditional withdrawals. A conditional withdrawal occurs when a taxpayer withdraws an appeal based on the assessor's agreement to reduce the property's taxable value below its factored base year value. In conjunction with this withdrawal, the assessor corrects the assessment for the year being appealed, as permitted under section 4831.

Disaster Relief

Section 170 allows a county board of supervisors to adopt an ordinance granting tax relief to assessee's whose property is damaged or destroyed through no fault of their own, by misfortune or calamity. The ordinance may apply to damaged or destroyed property located in an area proclaimed by the Governor to be in a state of disaster, or to property damaged or destroyed by any other misfortune or calamity. An assessee's property must suffer a loss in market value of at least \$5,000 before that assessee becomes eligible for relief.

In 1997, the El Dorado County Board of Supervisors adopted an ordinance to grant tax relief under the provisions of section 170.² The ordinance provides that tax relief is available for "property that was damaged or destroyed through no fault of said persons by the weather-related misfortune and calamity of December 1996 and January 1997."

Discovery and Tax Relief

Many properties in El Dorado County sustained damage due to flooding of the American River and its tributaries in 1996 and 1997. Absentee owners and inaccessible backcountry parcels made the discovery of damaged properties difficult. In an attempt to discover properties that were damaged and notify property owners of the availability for tax relief, the assessor published newspaper notices and directed his staff to canvass specific areas.

As a result of the discovery program, the assessor mailed 154 applications for property tax relief. Additional applications were available at the public counter of the assessor's office, and copies of returned applications are kept in a binder. The assessor also developed a section 170 worksheet for processing the claims for disaster relief. Because the calamity occurred during two assessment years (96-97 and 97-98), a pro-rata table was included to facilitate tax reductions in the two assessment years. A total of 82 assessment roll corrections resulted from this program.

Our prior survey suggested that applications for calamity relief be modified to alert the property owner that assessable personal property was also eligible for tax relief, and that the percentage reduction due to damage be determined by comparing the full cash value before damage with full cash value after damage.³ The assessor implemented these suggestions.

² Ordinance 4433.

³ El Dorado County Assessment Practices Survey, October 1995.

Assessment Roll Change Procedures

The county assessor must complete the local assessment roll on or before July 1 each year and deliver it to the county auditor. After delivery of the roll to the county auditor, the assessor cannot change any assessment unless authorized by statute or by the board of supervisors and county counsel.

Sections 531 through 538 authorize roll changes resulting from escape assessments. Sections 4831 through 4845 permit corrections of assessment errors.

Escape Assessments

Escape assessments are assessments made after the assessor has certified the completed roll and delivered it to the county auditor. Upon discovery of property escaping assessment, the assessor must add the value of the escaped property and any applicable penalty to the assessment roll.

Section 531.8 requires that the assessor notify the assessee of an escape assessment at least ten days prior to entering the value on the roll. Certain information must be included on the notice. It must contain the amount of any escape assessment and the name and telephone number of an assessor's office representative with whom the assessee can discuss the assessment. The notice must also prominently display the following heading: "NOTICE OF PROPOSED ESCAPE ASSESSMENT."

RECOMMENDATION 1: Revise the Notice of Proposed Escape Assessment to include the heading required by section 531.8.

Prior to enrolling an escape assessment, the El Dorado County Assessor notifies assessees of proposed escape assessments by letter. In the case of an audit, the letter notifies the taxpayer of the audit results and any possible escape assessments.

The letter does not display the heading required by section 531.8; it simply references the audit number or results of the audit. We recommend the assessor revise taxpayer notices to include the proper heading, as required by section 531.8.

Exemptions***Low-Value Property Exemption***

Section 155.20 authorizes a county board of supervisors to exempt from property taxation all property with a full value so low that, if not exempt, the total amount collected in taxes would amount to less than the cost of assessing and collecting those taxes. In determining the level of exemption, the board of supervisors must determine the level at which the costs of processing assessments and collecting taxes exceed the funds collected. Section 155.20 provides that the applicable base year value or full value to be exempted may not exceed \$5,000, except for certain taxable possessory interests.

In 1994, the El Dorado County Board of Supervisors adopted a resolution exempting real and personal property with a full value of \$2,000 or less. The ordinance also exempts manufactured home accessories up to \$5,000, when installed with a manufactured home first sold new prior to July 1, 1980 (subject to the vehicle license fee instead of local property taxation).

Low-valued property is coded “01” in the assessor’s computer system. This code indicates the assessed value is below \$2,000. Although the assessor lists low-valued property on the assessment roll, a tax bill is not generated. The assessor correctly applies the low-value property exemption.

ASSESSMENT OF REAL PROPERTY

The assessor's real property assessment program includes (1) revaluation of properties that have changed ownership, (2) valuation of assessable new construction, (3) annual review of properties that have experienced a decline in value, and (4) review of certain other properties subject to special assessment provisions.

Article XIII A of the California Constitution requires an assessor to value real property at the lower of its current market value or factored base year value. The assessed value on the 1975 lien date, a property's value upon a change in ownership, or a property's value following new construction is referred to as that property's base year value. The base year value is adjusted each year to reflect inflation as measured by the California Consumer Price Index (CCPI), not to exceed 2 percent. This indexed value is known as the property's factored base year value.

Change in Ownership

Section 50 requires the assessor to reappraise real property upon a change in ownership. Most often, the assessor learns of a change in ownership when a deed is recorded at the county recorder's office. In El Dorado County, the assessor's office reviews each recorded deed to discover changes in ownership that trigger the establishment of new base year values.

Discovery

The El Dorado County Recorder's Office is the main source of information by which the assessor discovers properties that have undergone a change in ownership. The following table shows an increasing number of recorded change-in-ownership documents processed over the past five years, which in turn indicates an increasing workload for the assessor's office.⁴

YEAR	NUMBER OF DOCUMENTS	PARCEL COUNT	PCOR's FILED	% PCOR's OF TOTAL DOCS
1998	15,184	14,070	13,128	86.46%
1997	13,540	12,505	11,217	82.84%
1996	12,673	12,986	11,064	87.30%
1995	11,776	11,842	9,555	81.14%
1994	13,402	14,344	11,715	87.41%
average	13,315	13,149	11,336	85.03%

⁴ Source of data- El Dorado County Document Log Book.

Section 480 requires transferees of real property to file a signed Change in Ownership (COS) statement whenever a change in ownership occurs. Section 480.3 provides that transferees may file a Preliminary Change of Ownership Report (PCOR) with the recorder at the time of recording, in lieu of a COS, or pay a \$20 fee. Over the last five years, approximately 85 percent of such documents are accompanied by the PCOR.

Legal Entity Ownership Program

For legal entities, changes in control result in a change in ownership of all real property owned by those entities. California property tax laws require corporations and other legal entities to report changes in control to the BOE. These reports help the assessor and the BOE determine whether real property owned or leased by the reporting entity is subject to reappraisal following a change in control. Legal entities submit reports to the BOE's Policy, Planning, and Standards Division's (PPSD) Legal Entity Ownership Program (LEOP) section, on a *Statement of Change in Control and Ownership of Legal Entities* (Form BOE 100-B). After investigating the reported changes in control, LEOP notifies all assessors of all changes in control determined to be a "change in ownership."

We reviewed the assessor's processing of LEOP notifications and found that the assessor took appropriate action.

Change in Ownership Statement

Section 480 requires transferees of real property or manufactured homes subject to local taxation to file a signed statement COS whenever a change in ownership occurs. Section 480(c) provides that the BOE shall prescribe the COS form after consulting with the California Assessors' Association.

RECOMMENDATION 2: Use the BOE-prescribed Change of Ownership Statement.

The COS used by the assessor is not the BOE-prescribed form. It does not request the name of the seller/transferor and it does not inform the transferee of the property tax relief available under section 69.5. Besides omitting important questions, the current assessor's form includes an outdated "Important Notice" statement. The BOE-prescribed COS includes an "Important Notice" statement, revised in 1994, in response to amendments to section 480.

We recommend that the assessor use the BOE-prescribed COS.

New Construction

Section 71 requires the assessor to reappraise newly constructed real property upon the date of completion, or on each lien date while construction is in progress. Assessors discover most new construction activity from building permits issued by various agencies. Other discovery methods include business property statements, aerial photographs, news reports, and field inspections.

Discovery

Building permits are the primary means of discovering new construction. There are four permit-issuing agencies in El Dorado County; the City of Placerville, the City of South Lake Tahoe, the County of El Dorado, and the county's Environmental Health Division of the Environmental Management Department. The assessor receives permits monthly from the County of El Dorado and the cities of Placerville and South Lake Tahoe. For the five-year period of 1993 through 1998, the assessor received 35,896 permits, which resulted in 23,332 reappraisals.

RECOMMENDATION 3: Obtain building permits from the Environmental Health Division.

Section 72 requires county or city agencies to furnish copies of building permits to the assessor. Currently, the assessor does not receive copies of permits from the county's Environmental Health Division. These permits are issued for water wells (used for both agricultural and domestic purposes) and septic systems, either of which may be items of assessable new construction.

The Environmental Health Division forwards a well or septic permit to the county building department where it is combined with a structure permit. Once issued, the structure permit (including the well or septic permit) is forwarded to the assessor. Since the Environmental Health Division does not send copies of well and septic permits directly to the assessor, assessable new construction may escape assessment. For example, the assessor would not receive a permit for a well "unassociated" with a structure permit.

To ensure that the assessor discovers all qualifying new construction, he must receive a copy of every approved building permit. Well and septic system permits can indicate further development and can aid the assessor in discovering other new construction. We recommend that the assessor obtain copies of well and septic permits directly from the Environmental Health Division.

Processing

When the assessor receives permits from issuing agencies, an appraisal aide culls those permits that represent non-assessable new construction, including re-roofs, replacement water heaters, or other repair and maintenance items. After culling nonassessable permits, the appraisal aide keys the remaining permits into the computer system, then forwards those remaining permits to the appraisal staff for valuation.

Documentation

RECOMMENDATION 4: Document the approach to value used in the appraisal of new construction.

We reviewed 48 new construction appraisals. Most property records relating to the construction of new residences contained both a cost approach to value and a sales comparison approach. The commercial and industrial records contained, at minimum, a cost approach and historical cost

data. However, we found little documentation in the appraisal records supporting the valuation of miscellaneous new construction. Assessments of residential additions, swimming pools, and outbuildings were poorly documented.

Several properties that had experienced substantial new construction were assessed at less than the owners' reported costs, without any documentation. On several properties, a large portion of the new construction was owner-built. Information in the appraisal records did not indicate any consideration of the owner's labor. In other cases, where the owner returned a self-reporting form, the assessor enrolled only a portion of the reported costs without comment. And, in other cases, it was impossible to determine the basis for the new taxable value.

Documentation supporting the value conclusion is a necessary element of any appraisal, especially when there is a need for further review such as an assessment appeal, a decline-in value appraisal, or a future change-in-ownership appraisal. We recommend the assessor ensure the appraisal records contain sufficient information to support the assessed values.

Decline in Value

Section 51 requires the assessor to value real property subject to article XIII A of the California Constitution at the lower of its factored base year value or its current market value, as defined in section 110. When a property's current market value declines below its factored base year value, the market value must be enrolled as the taxable value.

When the assessor enrolls a taxable value reflecting a decline in the current market value of a property, it is only a temporary reduction. Once a property's market value has declined below factored base year value, and its market value has been enrolled to recognize the reduction, section 51 requires that the property be reappraised each following lien date until the current market value is greater than its factored base year value. The assessor uses a computer code to mark these properties for annual review.

In El Dorado County, approximately 19,500 properties are assessed below their factored base year value.⁵ Timeshares represent approximately 14,000 of these properties. We found that the assessor has an effective decline in value assessment review program.

Supplemental Assessments

Section 75, et seq., require the assessor to appraise property at its full cash value on the date of a change in ownership or completion of new construction. Once the appraisal is enrolled, the assessor must then issue a supplemental assessment. The increase or decrease in assessed value resulting from a change in ownership or new construction is reflected in a supplemental assessment. A supplemental assessment covers the portion of the fiscal year remaining after the change in ownership or new construction.

⁵ Source: A Report on Budgets, Workloads, And Assessment Appeals Activities in California Assessors' Offices. 95/96, 96/97, and 97/98.

For changes in ownership or completed new construction occurring between the lien date and May 31, two supplemental assessments are issued. The first covers the portion of the current fiscal year remaining after the assessable event; the second covers the ensuing fiscal year in its entirety.

RECOMMENDATION 5: Issue only one supplemental assessment for each reappraisable event in June.

We found that the assessor issues two supplemental assessments for each change in ownership and new construction event occurring in the month of June. This practice does not conform to statute. Section 75.11(a) permits only one supplemental assessment for events occurring on or after June 1, but before the succeeding January 1. We recommend that the assessor issue only one supplemental assessment for reappraisable events occurring in June.

Fixtures

Rule 122.5(a)(1) defines a fixture as:

An item of tangible property, the nature of which was originally personalty, but which is classified as realty for property tax purposes because it is physically or constructively annexed to realty with the intent that it remain annexed indefinitely.⁶

Rule 122.5 sets forth the three factors to use when determining whether an item is a fixture or personal property. Those factors are physical annexation, constructive annexation, and intent.

Although classified as real property, fixtures are treated differently in three areas: (1) Fixtures are a separate appraisal unit when measuring declines in value; (2) fixtures are treated differently than other real property (i.e., structures) for supplemental assessment purposes; and, (3) fixtures are a component in the value criteria used to determine mandatory audits.

We found that the assessor properly treats fixtures as a separate appraisal unit when determining whether the market value of those fixtures has declined below their factored base year values.

Generally, fixtures are not subject to supplemental assessment because they are normally valued as a separate appraisal unit apart from the structure. However, fixtures that are part of a single appraisal unit that changes ownership, or that is newly constructed, are subject to supplemental assessments.

RECOMMENDATION 6: Consistently issue supplemental assessments for fixtures in accordance with statutory provisions.

The assessor issues supplemental assessments, both on leasehold improvements assessed to a lessee's business property account, and on newly constructed fixtures. However, during our review of improvements classified as fixtures, we found several examples of newly constructed

⁶ For assessment purposes, fixtures include trade fixtures and fixed equipment.

fixtures, subject to supplemental assessment provisions, for which supplemental assessments had not been issued. In two cases, the assessor failed to issue supplemental assessments for underground tanks and pumps for newly constructed service stations.

We recommend the assessor issue supplemental assessments for fixtures that are included as part of a single appraisal unit that changes ownership or that is newly constructed.

Timberland Production Zones

Land zoned as Timberland Production Zone (TPZ) can be used only for growing and harvesting timber, and for certain other compatible uses as defined by law. TPZ land is subject to assessment in accordance with the TPZ site classifications that exclude the value of the standing timber. There were 782 TPZ parcels totaling 148,415 acres on the 1998-99 El Dorado County assessment roll. This represents 13.5 percent of the county's total land area of 1,095,360 acres. The total assessed value of all parcels zoned TPZ was \$22,335,127.

Most El Dorado County timberland consists of pine-mixed conifer, Site Class IV. The TPZ appraisal records sufficiently document the history and methods used to value each TPZ property.

Section 435 establishes the method to determine the taxable value of timberland. That value shall consist of the appropriate site-class value described in section 434.5, plus any value attributable to existing, compatible, nonexclusive uses of the land. Uses may include, but are not limited to, hunting, grazing, camping, and mining.

Although the assessor includes the value of known compatible nonexclusive uses in the assessment of TPZ properties, the most recent canvassing of TPZ land to discover compatible uses occurred four years ago. The compatible use value should be determined periodically and added to the site class value of the TPZ land. We suggest the assessor send periodic income questionnaires to all TPZ owners to help discover compatible, nonexclusive uses of TPZ property.

California Land Conservation Act Property

Agricultural preserves are established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965. Property owners in an agricultural preserve may choose to enter into a contract restricting the use of their land. Lands under contract are valued for property tax purposes on the basis of agricultural income-producing ability, including compatible use income (e.g., hunting rights and communications facilities). They are assessed at the lowest of the restricted value, the current unrestricted market value, or the factored base year value, as defined in article XIII A of the California Constitution. Sections 422 through 430.5 prescribe the guidelines for assessing land subject to agricultural preserve contracts.

On the 1998 lien date, El Dorado County had 43,910 acres encumbered by CLCA contracts, covering 242 parcels.⁷ The total assessed value on the 1998-99 assessment roll was \$32,930,232,

⁷ 53 CLCA contracts

including land, structures, trees, equipment, and personal property. CLCA properties represent 8 percent of the assessable land in the county. Approximately 20 percent of the lands under contract were in non-renewal status.

We reviewed the assessor's CLCA program for adherence to statutory provisions and uniform treatment of taxpayers. The assessor uses a customized form for the calculations and tracking of assessed values during the non-renewal period. The form is user-friendly and provides good documentation for this activity.

Valuation

Section 423(a) sets the fundamental criteria for determination of the income to be capitalized. This section provides that the income to be capitalized is the economic net income attributable to the land determined, whenever possible, by the analysis of rents received in an area for similar land, in similar use. In determining net annual income, those expenditures which are ordinary and necessary in the production and maintenance of the revenue, are to be deducted from revenues.

RECOMMENDATION 7: Deduct expenses from gross revenue when capitalizing the income of CLCA properties.

The assessor values properties encumbered by CLCA contracts on the basis of their ability to produce agricultural income. However, the assessor capitalizes the gross market income without deducting expenses. In our opinion, that practice overstates the taxable value of CLCA properties and does not conform to the requirements of section 423. We recommend the assessor deduct ordinary and necessary expenses from gross revenue when valuing CLCA properties.

RECOMMENDATION 8: Compile a comprehensive database to aid in the appraisal of CLCA properties.

We found that the database used by the assessor to determine market rents is limited and incomplete. For example, data on properties rented for grazing consisted of only the use, size, gross annual rent per acre, contact name, contact telephone number, and a few comments. That data is insufficient to facilitate comparison to a subject property and to identify comparable properties. For example, it is not possible to determine the property's elevation, the availability of water, the effective date of the data, and whether or not the information reflects current market conditions. Additionally, data is limited to grazing and/or irrigated pasture; no comparable data is available for orchard or vineyard properties.

We recommend that the assessor develop a database of market income and expenses for properties restricted under CLCA contracts.

Documentation

RECOMMENDATION 9: Include documentation in appraisal records supporting the income, expenses, and capitalization rates used in the valuation of CLCA properties.

Assessment records should contain sufficient documentation to support market value conclusions. We found that the CLCA appraisal records lacked basic documentation of the elements used in the income approach to value. No documentation was noted for the income and capitalization rate. Furthermore, we noted that the same capitalization rate was employed in all of the appraisals of the properties we reviewed, regardless of land use. While the basic yield rate is specified by law, the degree or level of risk among agricultural properties typically varies.

Documentation of net income should include an analysis of the projected gross income and expenses, and a calculation of net income to be capitalized. Without adequate documentation, it is difficult to defend appraisals or to discover whether there are errors in the existing appraisals. We recommend the assessor properly document the income, expenses, and capitalization rate used in the appraisal of CLCA properties.

Taxable Government-Owned Property

Article XIII, section 3, of the California Constitution exempts from property taxation any property owned by local governments, except as provided in section 11(a). Section 11 provides that land, and the improvements thereon, located outside an agency's boundaries, are taxable if the property was subject to taxation at the time of acquisition. Improvements that were constructed to replace improvements that were taxable when acquired are also taxable.

The assessed value of taxable government-owned land, located outside Inyo and Mono counties, must be the lowest of (1) the 1967 assessed value adjusted by the appropriate section 11 factor (supplied annually by the BOE), (2) the current market value, or (3) the factored base year value.⁸ Taxable government-owned improvements are assessed at the lowest of (1) the current market value, (2) the factored base year value, or (3) the highest value ever used for taxation of those improvements.

There were 106 assessments of taxable government-owned properties on the 1997-98 El Dorado County assessment roll. All of the properties were assessed at the restricted value – the 1967 assessed value adjusted by the section 11 factor.

We found that the assessor has an effective taxable government-owned property assessment program.

⁸ *City and County of San Francisco v. County of San Mateo*. (1995) 10 Cal. 4th 554. Letter to Assessors No. 95/48.

Possessory Interests

A taxable possessory interest is established when a private party has the exclusive right to the beneficial use of government-owned real property. Sections 107 et seq. and Property Tax Rules 20 through 28 define the requirements for possessory interest assessments. On the 1998-99 assessment roll, there were 1,663 possessory interest assessments in El Dorado County with an assessed value of approximately \$70,000,000.

In our 1995 assessment practices survey, we recommended the assessor recognize possessory interest changes in ownership, add the present worth of unpaid future contract rents to selling prices, discontinue discounting possessory interest values for risk, increase appraisal record documentation, revise terms of possession, and assess airport and fairground possessory interests. We found that the assessor has implemented all elements of our prior recommendation except for one. The assessor did not implement the element of the recommendation relating to documentation. We reiterate that element in the recommendation below.

Documentation

To accurately value possessory interests, the assessor must maintain and consider current market and contract data.

RECOMMENDATION 10: Include copies of leases and other pertinent information in all possessory interest appraisal records.

In our previous assessment practices surveys, we expressed a concern about the absence of lease data in the appraisal files. We found that most possessory interest property records continue to lack current leases, permits, or other written instruments that established the taxable interest. In addition, we were unable to find any written remarks stating what term, rate, or income the assessor used in calculating the possessory interest values for a number of possessory interests.

Documenting lease data in appraisal records is an important step in valuing possessory interests. Without such documentation, it can be difficult to determine the start of occupancy, the term of possession, economic rent, date of change in ownership, ownership of improvements upon reversion, and other facts essential to making a sound possessory interest appraisal. Lease terms, lease payments (including escalating future payments), and expenses paid by the tenant are important elements in the income approach to value. Knowledge of expiration dates and renewal options is an important tool in identifying when to reappraise a possessory interest.

The income, capitalization rate, and term of possession used to calculate the possessory interest value should be documented on each appraisal record. In addition, we recommend the assessor include copies of leases and other pertinent information in possessory interest files.

Timeshare Property

Timeshare interests are the rights to use real property for an interval of time. Section 998 provides that the taxable value of a timeshare estate shall be determined by finding the real property value of the interest involved. Such a value must exclude the value of any non-real property items, such as vacation exchange rights, vacation conveniences, services, and club memberships.

In 1998, the assessor processed approximately 16,000 timeshares. Ten timeshare projects, operated by eight development companies, are located in El Dorado County. The assessor worked with developers to improve procedures that facilitate compliance with the Revenue and Taxation Code and to help gather additional data. Developers periodically submit lists of sales and inventory reports.

The assessor maintains timeshare appraisal records in electronic files. Master files for each project contain building schematics, building costs, build-out projections by phase, inventories, and base year calculations. Individual timeshares are assigned a parcel number in map books 500 to 599.

Valuation of individual timeshares is by the sales comparison approach. Sales are cataloged on the assessor's computerized sales analysis program. Developer sales to individuals are discounted for non-property items: exchange rights, furniture, club memberships, and maintenance fees (if the first year fee is collected up front).

We found that the assessor has an effective program for the assessment of timeshares.

Leasehold Improvements

Leasehold improvements (tenant improvements) are improvements or additions to leased property made by the lessor or lessee. Leasehold improvements may be enrolled on either the secured or unsecured assessment roll; section 405 permits assessment of leasehold improvements to either the landowner or the tenant.

Discovery and Monitoring

Commercial, industrial, and office properties require close monitoring by the assessor. Initial assessments could result from properties in various stages of construction, from shell structures to complete and occupied buildings. In addition, as tenants change over time, changes could be made to the original improvements (i.e., warehouse area converted to office space, construction of additions, demolition of improvements, or changes in use of the property).

Business property statements and building permits provide the most common means of discovering leasehold improvements. Taxpayers are required to report structural and land improvement costs on the business property statement. This reporting supplements the building permit discovery process; many construction items, such as paving and concrete work, may not require a building permit. Additionally, many businesses with large facilities perform a number of construction projects each year that may not be clearly identified by building permits.

Information on the business property statement can assist the assessor in discovering these items and obtaining acquisition costs.

The El Dorado County assessor discovers tenant improvements through building permits and property statement reporting.

Coordination

To ensure uniform assessment of similar property, coordination between the business property and real property sections is essential for assessment of leasehold improvements. The assessor should design procedures to ensure that leasehold improvements are valued accurately, not assessed to multiple accounts, and that such improvements are assessed to the proper person or entity.

When a taxpayer reports structural improvements on the business property statement, the business property section notifies the real property appraiser responsible for that business' geographical area. The real property appraiser reviews the reported costs and interviews the lessee to determine whether the leasehold improvements are to be assessed to the lessor or the lessee.

RECOMMENDATION 11: Improve the coordination of leasehold improvement assessments between the real property and business property sections.

We found that the assessor does not regularly coordinate the assessment of leasehold improvements. One business reported \$95,385 in structural improvements for 1996, and another \$38,577 in 1997 on its annual property statement. These improvements are being assessed to the lessee as fixtures. The real property record does not indicate whether the real property appraiser investigated the reported structures, either to determine classification, or to whom the leasehold improvements should be assessed. In another instance, a property statement reported \$14,902 in structural improvements made in 1996, but neither the business property record nor the real property record indicated that the assessor reviewed this new construction.

On one property statement, a lessee reported \$243,280 in structural improvements. Notations on the property statement indicated that the business property section referred this information to the real property section. Real property records, however, showed no evidence that the real property division was made aware of the improvements.

Assessment of leasehold improvements should be documented on both the lessor's and lessee's appraisal record to assure there are no escapes or double assessments. Appraisal records need to indicate how the improvements were assessed (e.g., to whom they were assessed, placed on the secured or unsecured roll, and assessor's parcel number or business property account number). Developing written procedures that describe how to systematically identify and assess leasehold improvements helps promote uniform assessment. Written procedures clarify each staff member's responsibilities in the valuation process for this type of property, making appraisal and

record management easier. We recommend that the assessor develop written procedures for valuing and assessing leasehold improvements.

Classification

RECOMMENDATION 12: Review classification practices for leasehold improvements assessed on the unsecured roll.

Since fixtures are treated differently from structures, proper classification of leasehold improvements is important. Differences arise in several areas: (1) Fixtures are a separate appraisal unit when measuring declines in value; (2) fixtures are treated differently from structures for supplemental roll purposes; and (3) fixtures and personal property are components in the value criteria for mandatory audits.

The assessor does not issue supplemental assessments for leasehold improvements assessed to the tenant's business account on the unsecured roll. In effect, since only fixtures are excluded from supplemental assessment, the assessor classifies all leasehold improvements assessed on the unsecured assessment roll as fixtures. In one case, the assessor classified a parking lot addition as a fixture and assessed it to the lessee's unsecured account. It seems unlikely that all leasehold improvements assessed on the unsecured roll are fixtures exempt from supplemental assessment. We recommend the assessor review his classification practices for structure and fixture improvements on the unsecured roll.

Mineral Property

There is only limited mineral development in El Dorado County. A county ordinance requires open pit operations to be more than 10,000 feet from any residential area.

The assessor values mineral properties using the royalty method, an income approach to value. This method's primary limitation is the availability of market royalty information.

RECOMMENDATION 13: Recognize the proper appraisal unit for mineral properties.

We found that the assessor appraises the mineral rights, and the business property associated with the mining operation, separately. Property Tax Rule 469(e) provides that the appraisal unit, for recognizing declines in the value of mineral property, shall consist of land, improvements (including fixtures), and proved reserves. The assessor's practice does not comply with the requirements of rule 469.

Failure to value the proper appraisal unit could result in some of the property being assessed at current market value and other parts of the same property being assessed at the factored base year value. The assessor should also coordinate the appraisal of these properties between the business property section and the real property section. Once the proper value has been determined, the assessor can enroll the values separately, if desired.

Proved Reserves

Our review of mineral appraisals disclosed that the proved reserves for mineral properties are adjusted annually to account for production, as described in Rule 469. However, the assessor does not adjust the depletion allowance, per unit of reserve, by the CCPI. The assessor calculates depletion based on the original base year value for reserves. The assessor's method understates the value of the mineral rights.

The recommended procedure for determining the annual adjustment of the mineral rights to the base year value is to divide the prior year adjusted value of the base year reserves by the quantity of the prior year's reserves. This figure is then multiplied by the amount of production from the prior year, then subtracted from the prior year's adjusted base value for reserves. The result is multiplied by the current year's CCPI adjustment. Finally, the value of new reserves is added to calculate the current base year value of reserves.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The county assessor's program for assessing personal property includes the following elements:

- Processing annual business property statements;
- Auditing business property statements to ensure proper reporting by assessees;
- Annual valuation of business personal property reported on business property statements;
- Annual valuation of other taxable property, including vessels, aircraft, and manufactured homes.

Audit Program

Section 469 requires an audit of the accounting records of assessees claiming, owning, possessing, or controlling tangible business personal property and trade fixtures with a full value of \$300,000 or more. Property Tax Rule 192 clarifies the statute by requiring an assessee to reach the \$300,000 full value threshold for each of four consecutive years. Audits determine whether taxable property and related information were reported accurately by the taxpayer, and were assessed properly by the assessor.

A comprehensive audit program is essential to the successful administration of any tax program that depends on information supplied by assessees. A good auditing program discourages deliberate underreporting and helps educate those property owners who unintentionally misreport.

Mandatory Audits

RECOMMENDATION 14: Bring the mandatory audit program to current status.

Our prior assessment practices survey found that the assessor had a backlog of uncompleted mandatory audits.⁹ We made the same findings in this survey; the assessor continues to have a backlog of uncompleted mandatory audits.

The El Dorado County Assessor has 162 accounts qualifying for mandatory audit. Of those accounts, 76 audits are being carried over to 1998-99.¹⁰ For more than 10 years, the El Dorado County Assessor has failed to meet the requirements of section 469. We therefore recommend that the assessor bring the mandatory audit program to a current status.

⁹ Assessment Practices Survey dated October 1995.

¹⁰ Table I of A Report on Budgets, Workload, & Assessment Appeals Activities 1997-98, dated June 1999

Waivers of the Statute of Limitations

RECOMMENDATION 15: Obtain signed waivers of the statute of limitations when audits will not be completed timely.

In most cases, audits must be completed within four years after July 1 of the assessment year the property escaped assessment, since roll changes resulting from audits are subject to the statute of limitations found in section 532.¹¹ Section 532.1 allows for an extension of time when the assessee and the assessor agree, in writing, to extend the time allowed for making an escape assessment, correction, or refund.

We found that the assessor does not seek waivers of the statute of limitations. By failing to obtain waivers, the assessor may allow taxable property to permanently escape assessment following expiration of the statute of limitations for enrolling escape assessments. As of June 30, 1998, there were 46 mandatory audit accounts that the assessor failed to audit and for which he also failed to obtain signed waivers.

A signed waiver of the statute of limitations protects the legal rights of both the taxpayer and the assessor. Without a waiver, the taxpayer and the county lose their legal recourse to correct any assessment errors beyond the four-year statute of limitations. Waivers also put taxpayers on notice that the assessor plans to audit their accounts. Such notices may improve the level of accuracy and completeness of the data reported on the annual business property statement.

We recommend that the assessor seek waivers of the statute of limitations in all cases where audits will not be completed timely.

RECOMMENDATION 16: Discontinue netting value differences discovered during an audit.

In our prior survey, we recommended the assessor follow statutory requirements when enrolling escape assessments after an audit. We found that the assessor continues to offset assessment differences. The practice involves offsetting an underassessment (escape) for one year with an overassessment (refund) in another year.

No statute permits this practice. Section 533 allows for an offset of tax refunds against tax liabilities; however, that does not apply to assessed values. Regardless, the responsibility for offsetting tax refunds with proposed tax liabilities rests with the tax collector, not the assessor. We again recommend the assessor enroll escapes for underassessments and process roll corrections for overassessments for each error discovered during an audit.

¹¹ If conditions exist that warrant a penalty application of 25% as provided in section 502 and 504, the time limit is extended to 6 years.

Property Statement Processing

Section 441 requires every person owning taxable personal property to file a signed property statement with the assessor, if they own personal property with an aggregate acquisition cost of \$100,000 or more for any assessment year. Section 441 also provides that every person owning personal property, who is not otherwise required to file a property statement, shall, upon request of the assessor, file a property statement. If a taxpayer fails to file the property statement, section 501 requires the assessor to estimate the value, based on information available to assessor, and assess the property.

The assessor annually processes approximately 3,400 business property statements.

Contents of Property Statements

Section 441.5 provides that, in lieu of completing the property statement provided by the assessor, an assessee may furnish information as attachments to the property statement. Provided the attachments are in a format specified by the assessor, and that one copy of the property statement, as printed by the assessor, is executed by the taxpayer, that form of filing is acceptable.

RECOMMENDATION 17: Ensure assesseees comply with the requirements of section 441.5 when filing property statement attachments.

During our review of property statement processing, we found that assesseees do not always sufficiently reference property statement attachments. In some cases, depreciation schedules or fixed asset listings were attached with no notations. Also, in several other instances, the assesseees attached a list of their leased equipment, but failed to submit a completed business property statement.

Assesseees must provide required information, either on the assessor's printed property statement or on attachments appropriately referenced on the property statement. Attachments to property statements filed without a complete and signed property statement do not constitute a valid filing. Incomplete or improper property statement filings, including a letter detailing the deficiency, should be returned (with a copy retained by the assessor) to the taxpayer for proper completion.

We recommend that the assessor ensure that property owners comply with the statutory requirements when filing property statements and their attachments.

Equipment Valuation

Taxable values (or assessed values) of business personal property are typically derived by multiplying historical or original costs (referred to as acquisition costs) by valuation factors. The valuation factors are the product of the acquisition cost index factors and percent good factors. Accurate equipment assessments depend on the proper choice and application of these factors.

Section 401.5 requires that the BOE issue information that, in the judgment of the BOE, will promote uniformity in appraisal practices and in assessed values throughout the state. The BOE specifically complies with section 401.5 for business personal property by publishing Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581). This section of the Assessors' Handbook contains price index factors and percent good factors for use in computing current market value estimates from acquisition costs of machinery and equipment.

AH 581 contains 12 indices for commercial equipment, six indices of industrial equipment, and one index each for agricultural and construction equipment. The percent good factors are set forth in two tables, one for machinery and equipment and one for agricultural and mobile construction equipment. Percent good factors for agricultural and construction equipment are provided for both new and used equipment.

RECOMMENDATION 18: Use BOE recommended equipment index and percent good factors.

The assessor applies a composite of index and percent good factors to acquisition costs to arrive at replacement cost new less normal depreciation (RCNLD). Our review found that the assessor does not use the BOE recommended factors for office, restaurant, retail, services, and garage equipment.

AH 581 is designed to assist the county appraiser when estimating the fair market value of equipment. To reflect accurate values, it is important to use the appropriate cost index factor, based on the type of equipment and business property being appraised, and to apply the appropriate percent good factor to arrive at the RCNLD. We therefore recommend the assessor use the BOE factors as published in AH 581. Modifying either the cost indices and/or percent good factors in the handbook sacrifices accuracy and may result in inequitable treatment of taxpayers.

RECOMMENDATION 19: Discontinue using arbitrary minimum valuation factors.

For certain types of equipment, the assessor establishes an arbitrary minimum valuation factor of 10 to 20 percent of cost. For example, the assessor has a 10 percent minimum valuation factor for all laundry, dry-cleaning, office equipment, and restaurant equipment with a 10-year service life. The assessor uses a 15 percent minimum valuation factor for restaurant equipment and retail equipment with service lives of 15 years.

Index factors recognize items such as price changes and technological progress, and they are intended to reflect the price of a new replacement. The percent good factors contained in the handbook are based on the premise that these types of properties lose value as they age. They are intended to reflect the average loss in value suffered by specific types of properties over their expected service lives.

Arbitrarily establishing minimum valuation factors is not an acceptable appraisal practice because it is likely to overvalue older equipment. We recommend the assessor use the AH 581 equipment index factors as intended.

Computer Valuation

In order to promote uniformity in appraisal practices and assessed values, and to comply with the requirements of section 401.5, the BOE issued valuation factors for computer equipment. In Letter To Assessors (LTA) No. 97/18, the BOE provided computer equipment valuation factors for the 1997 and 1998 lien dates. Computer valuation factors are provided for the categories of personal (\$25,000 or less), mid-range (\$25,000.01 to \$500,000), and mainframe (\$500,000.01 and up).

RECOMMENDATION 20: Assess computers using the BOE's recommended factors.

We found that the assessor uses most BOE-recommended valuation factors for computers, but he also uses a minimum valuation factor of 10 percent. We recommend the assessor assess computers using all of the BOE's valuation factors.

Leased Equipment

One of the responsibilities of the assessor's business property division is the discovery and assessment of leased equipment. Assesseees are required to report all leased property (taxable property in their possession but belonging to others) on their annual business property statement. Assesseees are required to provide the type of property, year of acquisition and manufacture, cost to purchase new, description or lease number, and the owner's name and address. To ensure proper assessment of leased equipment, it is necessary to have procedures for tracking and cross-checking leased equipment.

When property is on lease, lessors should report such property on their annual property statement. At the end of such leases, the lessees may keep the equipment or return it to the lessors. A procedure should be in place to identify the disposition of leased equipment upon termination of a lease. When lessees obtain ownership and retain possession of equipment at the end of such leases, the assessor should check to ensure that lessees report that property. Cross-checking information reported by lessors and lessees verifies the accuracy of the reported information and prevents leased equipment from escaping assessment or being double assessed.

We found that the assessor has sufficient procedures for tracking and cross-checking leased equipment.

Vessels

For the 1997-98 assessment roll, the El Dorado County Assessor assessed 4,550 vessels. The primary sources of discovery are Department of Motor Vehicles' reports, harbormaster reports, and referrals from other counties.

RECOMMENDATION 21: Send Annual Vessel Property Statements to owners with vessels costing \$100,000 or more.

Section 441 requires each person owning taxable personal property having an aggregate cost of one hundred thousand dollars (\$100,000) or more for any assessment year to file a signed property statement with the assessor.

Upon discovery of a new vessel, the assessor sends a vessel property statement to the owner. Once he receives the completed statement, the assessor correlates the purchase price with boat valuation guides to arrive at the full cash value. In subsequent years, the assessor sends only a "Boat Assessment Notice" postcard to boat owners to verify ownership and situs of the vessel. This postcard is sent to all owners, regardless of their vessel's full cash value.

Sending postcards, rather than vessel property statements, to owners with vessels costing \$100,000 or more does not meet statutory requirements. We recommend the assessor send a vessel property statement to owners of vessels costing of \$100,000 or more.

Assessors in California are required to annually appraise boats at market value. In our prior survey, we recommended that the assessor annually reappraise all boats at market value. The assessor has implemented this recommendation.

Documented Vessels

Section 227 provides for the assessment of certain documented vessels, described in section 130, at 4 percent of full cash value. To qualify, the documented vessel must be engaged or employed exclusively in (1) taking and possession of fish or other living resource of the sea for commercial purposes, (2) instruction or research studies as oceanographic vessel, or (3) carrying or transporting seven or more passengers for hire for commercial fishing purposes, and hold a certificate of inspection from the US Coast Guard.

RECOMMENDATION 22: Require documented vessel owners to file an annual affidavit before granting the 4 percent assessment.

Four documented vessels were assessed in El Dorado County for the 1998 tax year. Two of the vessels were assessed at 4 percent of market value for 1997 and 1998, even though the owners failed to file the *Affidavit For 4 Percent Assessment of Certain Vessels* (Form 576-E) requesting the exemption for those years.

Section 254 requires anyone seeking to have a vessel classified as a documented vessel eligible for assessment under section 227 to annually submit an affidavit to the assessor, providing all information required by the BOE. For a documented vessel to be assessed at 4 percent of its market value, the owner must file both the BOE's *Vessel Property Statement* (576-D) and the *Affidavit for 4 Percent Assessment of Certain Vessels* (576-E) annually.

We recommend the assessor require owners of documented vessels to file the proper affidavits before assessing certain documented vessels at 4 percent of market value.

Aircraft

The El Dorado County Assessor is responsible for assessing 324 general aircraft. Approximately 30 aircraft qualified for the historical aircraft exemption. There are no certificated aircraft sited in El Dorado County.

Discovery

The assessor relies primarily on annual reports from airport managers to discover aircraft. However, since the Cameron Park Airport does not have a manager, staff appraisers will occasionally check aircraft "N" numbers on aircraft parked at the airport and in the adjacent residential neighborhood. The assessor sends annual aircraft statements to owners of general aircraft.

Valuation

LTA 97/03 advises county assessors to use the *Aircraft Bluebook Price Digest* as the primary guide for valuing general aircraft, with the *Vref Aircraft Value Reference* as an alternate for planes not listed in the *Aircraft Bluebook Price Digest*. LTA 97/03 also directs the assessor to reduce listed retail values by 10 percent to provide a reasonable estimate of fair market value for an aircraft in truly average condition on the lien date.

RECOMMENDATION 23: Use the *Aircraft Bluebook Price Digest* as the primary guide for valuing general aircraft.

Through the 1997 tax year, the assessor used the *Aircraft Bluebook Price Digest* as his primary source for aircraft assessment. However, for the 1998 lien date, the assessor began valuing aircraft using a computerized version of the *Vref Aircraft Value Reference*.

Section 5363 requires county assessors to determine the market value of aircraft in accordance with standards and guides prescribed by the BOE. LTA 97/03 clearly establishes the *Aircraft Bluebook Price Digest* as the primary guide for valuing general aircraft; the *Vref Aircraft Value Reference* is only an alternate resource for aircraft not listed in the primary guide.

We recommend the assessor use the *Aircraft Bluebook Price Digest* as his primary reference guide for valuing aircraft.

Manufactured Homes

A manufactured home is subject to local property taxation if it was first sold new on or after July 1, 1980, or if the owner voluntarily requested conversion from vehicle license fee status to local property taxation. The statutes prescribing the method of valuing and assessing manufactured homes are set forth in sections 5800 through 5842. Health and Safety Code sections 18001.8 through 18613.2 define a manufactured home.

The El Dorado County Assessor is responsible for assessing approximately 2,600 manufactured homes and 70 mobile home parks. The assessor uses the *N.A.D.A. Manufactured Housing Appraisal Guide* (NADA) for valuing manufactured homes. Manufactured homes are properly classified as personal property and enrolled on the secured roll.

Our 1995 assessment practices survey recommended the assessor consider prices listed in recognized value guides, and that he cease enrolling supplemental assessments for manufactured homes voluntarily converted to local property taxation. The assessor now uses the NADA guide to value manufactured homes, and he has implemented a procedure to ensure that manufactured homes voluntarily converted to local property taxation are not issued supplemental assessments.

RECOMMENDATION 24: Improve documentation of manufactured home assessments.

Six of the 15 appraisal files we reviewed contained incomplete documentation. Three records lacked reference to a value source and three records lacked an explanation, either for a value reduction in one year, or for no change in value for successive years. Noting the source of values and actions taken would improve the quality of assessment records and the audit trail.

We recommend the assessor improve his documentation of manufactured home assessments.

APPENDIX

A: County Property Tax Division Survey Group

El Dorado County

Chief, County Property Tax Division:

Charles Knudsen

Survey Team Director

Gene Palmer

Principal Property Appraiser

Survey Team Supervisor

David J. Hendrick

Supervising Property Appraiser

Office Survey Team

Lisa Thompson

Supervising Property Appraiser

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Sally Boeck

Senior Specialist Property Appraiser

Manuel Garcia

Associate Property Auditor Appraiser

Dale Peterson

Senior Specialist Property Auditor Appraiser

Andy Anderson

Associate Property Appraiser

Glenn Danley

Associate Property Appraiser

Les Morris

Associate Property Appraiser

Wes Hill

Associate Property Appraiser

Denise Owens

Tax Technician II

Kathleen Trotto

Tax Technician II

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing¹² activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The BOE in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the BOE's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The assessment sampling program is conducted by the BOE's County Property Tax Division (CPTD) on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.

These assessments are stratified into 18 value strata (nine secured and nine unsecured.)¹³

From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.

For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:

Base year properties. Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

¹² The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

¹³ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$22,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

Transferred properties. Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

New construction. Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

Non-Proposition 13 properties. Those properties not subject to the value restrictions of Article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, timber preserve property, and taxable government-owned property.

Unsecured properties. Those properties on the unsecured roll.

From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation which is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. This apparent distortion in the raw sampling is eliminated by "expanding" the sample data; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.

The field investigation objectives are somewhat different in each category, for example:

Base year properties -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?

Transferred properties -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?

New construction -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?

Non-Prop 13 properties -- for properties not covered by the value restrictions of Article XIII A, or those properties that have a unique treatment do we concur with the amount enrolled?

Unsecured properties -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?

The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.

The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

The primary use of the assessment sampling is to determine an assessor's eligibility for the cost reimbursement authorized by Revenue and Taxation Code section 75.60. During the course of the sampling activity, the assessment practices survey team may also discover recurring causes for the differences in the opinion of taxable value that arise between the assessor and the County Property Tax Division. These discoveries may lead to recommendations in the survey report that would not have otherwise been made.

C: Relevant Statutes and Regulations**Government Code****15640. Survey by board of county assessment procedures.**

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of Records; Appraisal Data Not Public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.
- (b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.
- (c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code**75.60. Allocation for administration.**

- (a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6(commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.
- (b) For purposes of this section:
- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
 - (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
 - (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations**Rule 370. Random selection of counties for representative sampling.**

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
 - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
 - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, “significant assessment problems” means procedure(s) in one or more areas of an assessor’s assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:
- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
 - (2) the sum of all the differences between the board’s appraisals and the assessor’s values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor’s entire roll, exceeds 7.5 percent of the assessment level required by statute.
- (b) For purposes of this regulation, “areas of an assessor’s assessment operation” means, but is not limited to, an assessor’s programs for:
- (1) Uniformity of treatment for all classes of property.
 - (2) Discovering and assessing newly constructed property.
 - (3) Discovering and assessing real property that has undergone a change in ownership.
 - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
 - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of “significant assessment problems,” as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor’s practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The El Dorado County Assessor's response, which addresses 18 of the 24 recommendations, begins on the next page. Responses to the remaining recommendations are due to the El Dorado County Board of Supervisors within one year of publication of this report.

EL DORADO COUNTY



JOHN A. WINNER
ASSESSOR

MAIN OFFICE
360 FAIR LANE PLACERVILLE, CA 95667
TELEPHONE
PLACERVILLE (530) 621-5719 - S. LAKE TAHOE (530) 573-3422
FAX (530) 642-8148

RECEIVED

November 27, 2000

DEC 05 2000

DEPUTY DIRECTOR
PROPERTY TAXES

State Board of Equalization
Property Taxes Department
P.O. Box 942879, MIC:63
Sacramento, CA 94279-0063

Attention: Richard C. Johnson

Dear Mr. Johnson:

Pursuant to Section 15645 of the California Government Code, the following is the El Dorado County Assessor's response to the recommendations contained in the Assessment Practice Survey of the 1998/99 Assessment Roll conducted by the State Board of Equalization Survey Team. Please incorporate my response in your final Assessment Practice Survey Report.

In reviewing the recommendations submitted by the State Board of Equalization, I am pleased that most of the issues raised are minor technical matters that do not involve or affect the major duties and functions of the Department. Our goal is to perform our duties in accordance with applicable laws and regulations and apply them uniformly and fairly to all while maintaining customer service as our highest priority.

I wish to thank the entire survey and sample team of the State Board of Equalization for their professional and courteous manner in which they conducted their business.

Most importantly, I want to extend my sincere appreciation to the staff of the El Dorado County Assessor's Office for their hard work, professionalism and dedication to serving the tax payers of El Dorado County.

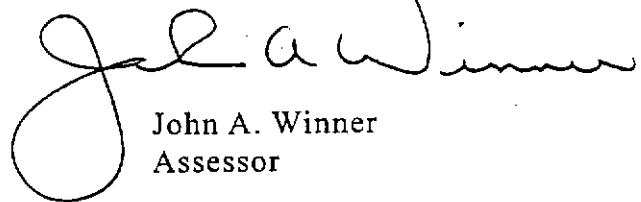
It should be noted that during the time frame just prior to this survey, the El Dorado County Assessor's Office suffered severe budget reductions, including the reduction of allocated staff positions from 54 to 36. As a result of the staff reductions and the amount of resources allocated to the Assessor's Office, the quality of the Assessment Roll and the Constitutional Mandates have been seriously impacted. Nearly all resources were dedicated to product production, discontinuing most research and development, staff training, internal audits, and other effective management tools that we once employed.

In 1995, the California Legislature realized a need for more reasonable funding for local county assessors. It was realized that the State General Fund was deprived of a substantial amount of revenue due to local county assessors' inability to maintain workloads as a result of budget reductions. As a result, Assembly Bill 818 was passed which appropriated 60 million dollars per year for three years to allow counties to participate in the County-State Property Tax Administration program. Unfortunately, due to staff reductions, El Dorado County could not initially meet the maintenance of effort requirements of AB 818 and therefore was ineligible to receive the \$302,795.00 allocation.

This program proved so successful in generating additional property tax revenues from participating counties, that the Legislature introduced Assembly Bill 719 to continue the program for another three years. We were successful in having an amendment placed in AB 719 that would modify the maintenance of effort requirements and change the base year allocation, thus qualifying El Dorado County for participation in the program. As a result of our participation, we have been able to restore 5 of the 18 positions originally lost due to the severe budget reductions of the mid-90's. We were also able to reinstate a few of the management programs that were discontinued during the major staff reductions of the mid-90's.

It is imperative that reasonable and proper property tax administration funding be made available in order to maintain a viable ad valorem property tax system as required by the California Constitution. Given reasonable and proper funding to carry out an effective property tax administration program, the sample and survey, as required by law, will have its proper effect as intended by its purpose and function.

Very truly yours,

A handwritten signature in black ink, appearing to read "John A. Winner". The signature is fluid and cursive, with a large loop at the beginning and end.

John A. Winner
Assessor

JAW:kjw
Attachment

EL DORADO

COUNTY



JOHN A. WINNER
ASSESSOR

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EL DORADO COUNTY
ASSESSORS RESPONSE TO RECOMMENDATIONS

Recommendation No. 1:

Revise the Notice of Proposed Escape Assessment to include the heading required by section 531.8.

Response: Will modify the form.

Recommendation No. 2:

Use the BOE prescribed Change of Ownership Statement.

Response: SBE was given an obsolete form as a sample. These have been destroyed. El Dorado County is using BOE-prescribed Change in Ownership Statement Form.

Recommendation No. 3:

Obtain building permits from the Environmental Health Division.

Response: We are developing a process with Environmental Management for access.

Recommendation No. 4:

Document the approach to value used in the appraisal of new construction.

Response: This recommendation refers to the information received from the self declaration of new construction. Appraisers sanitize the information obtained and received from the self dec form and enroll an appropriate value.

Recommendation No. 5:

Issue only one supplemental assessment for each reappraisable event in June.

Response: El Dorado County issues two supplemental assessments in June, however unless there is a proration by days as a result of the second event occurring before the first event is billed the Auditor cancels the first year bill. If we do not issue the first year June assessment, we cannot prorate by days and set up the second buyer for his proration for the first buyers bill. The El Dorado property tax system was written specifically to accommodate multiple base years.

Recommendation No. 6:

Consistently issue supplemental assessments for fixtures in accordance with statutory provisions.

Response: Disagree with SBE recommendation. El Dorado County complies with advisory LTA's 88-24, 91-59, and 92-27.

Recommendation No. 7:

Deduct expenses from gross revenue when capitalizing the income of California Land Conservation Act (CLCA) properties.

Response: No response.

Recommendation No. 8:

Compile a comprehensive database to aid in the appraisal of CLCA properties.

Response: No response.

Recommendation No. 9:

Include documentation in appraisal records supporting the income, expense, and capitalization rates used in the valuation of CLCA properties.

Response: No response.

Recommendation No. 10:

Include copies of leases and other pertinent information in all possessory interest appraisal records.

Response: Disagree with recommendation. Lease and other pertinent information are contained in master file.

Recommendation No. 11:

Improve the coordination of leasehold improvement assessments between the real property and business property sections.

Response: Written policies and procedures have been in place and were last updated 6/22/95.

Recommendation No. 12:

Review classification practices for leasehold improvements assessed on the unsecured roll.

Response: Disagree with recommendation, it is the policy of the El Dorado County Assessor's office to review classifications for leasehold improvements.

Recommendation No. 13:

Recognize the proper appraisal unit for mineral properties.

Response: No response.

Recommendation No. 14:

Bring the mandatory audit program to current status.

Response: We recognize backlog for which AB719 funds are currently appropriated.

Recommendation No. 15:

Obtain signed waivers of the statute of limitations when audits will not be completed timely.

Response: Agree in theory, however, in practice there has been limited response from taxpayers in obtaining signed waivers of statute of limitations.

Recommendation No. 16:

Discontinue netting value differences discovered during an audit.

Response: No response.

Recommendation No. 17:

Ensure Assesseees comply with the requirements of section 441.5 when filing property statement attachments.

Response: It is the policy of the El Dorado County Assessor to return all incomplete property statements.

Recommendation No. 18:

Use BOE recommended equipment index and percent good factors.

Response: El Dorado County has implemented the recommendations of the California Assessor's Association equipment index factors.

Recommendation No. 19:

Discontinue using arbitrary minimum valuation factors..

Response: See response to recommendation 18.

Recommendation No. 20:

Assess computers using the BOE's recommended factors.

Response: No response.

Recommendation No. 21:

Send Annual Vessel Property Statements to owners with vessels costing \$100,000 or more:

Response: We have less than ten such vessels. We will identify and send the recommended statements.

Recommendation No. 22:

Require documented vessel owners to file an annual affidavit before granting the 4 percent assessment.

Response: It is the policy of the El Dorado County Assessor to require an annual affidavit before granting the 4 percent assessment.

Recommendation No. 23:

Use the Aircraft Bluebook Price Digest as the primary guide for valuing general aircraft.

Response: Disagree with recommendation, El Dorado County uses *Aircraft Bluebook Price Digest* as well as other appropriate value references in valuing general aircraft.

Recommendation No. 24:

Improve documentation of manufactured home assessments.

Response: Okay, however I'm not sure how much documentation is sufficient to satisfy SBE.

JAW:stl

SAWPDOCSResponse-SBE Recommendations